

Upbeat Bank of Canada subtly hints at near-term rate hikes

The Bank of Canada left rates unchanged today at 1.25% as Nafta uncertainty continues to weigh heavily. But more optimistic language suggests tightening may not be far away



Source: Bank of Canada

The Bank of Canada kept interest rates on hold, however the tone of its statement was notably less cautious than before. The Bank said that "higher interest rates will be warranted to keep inflation near target". It seems the main reason for keeping rates unchanged at this meeting is the ongoing uncertainty surrounding 'trade policy', implicitly referring to the North American Free Trade Agreement (Nafta) and US tariff developments.

1.25%

 Policy Rate

As expected

Time is running short for Nafta. The exemption on US steel and aluminium tariffs given to Canada

and Mexico is due to end on Friday. Meanwhile, the clock is ticking on the ability of a Republican congress to sign any deal ahead of the November US mid-terms and ahead of the possible expiry of the Trade Promotion Authority (legislation that allows President Donald Trump to negotiate international trade agreements, which Congress can then reject or approve but not amend). That said, another key deadline, the Mexican election on 1 July 2018, now appears to be less of a time constraint following the Mexican Economy Minister Ildefonso Guajardo's suggestion that he can negotiate until 1 December 2018, even if the opposition wins the vote.

But given the deadlock in negotiations, with a number of key sticking points and a “no Nafta is better than a bad deal” rhetoric from Canadian Prime Minister Justin Trudeau, the chance of an agreement being made over the next few days or possibly weeks appears to have diminished.

Despite this, we still think that a deal can be reached, particularly given the time pressures on all three fronts to achieve a quick “win-win-win” outcome. Assuming this is the case and activity data continues to perform better, we still expect the Bank of Canada to hike twice in the second half of the year, potentially starting in July.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.